Building Community. Building Lives.

Niagara Region Financial Report 2011

The fiscal year ending December 31, 2011

The Regional Municipality of Niagara

Niagara Region

Vision

Niagara Region is a unified community of communities with diverse opportunities and qualities. Together we strive for a better tomorrow.

Mission

Niagara Region will serve its residents, businesses and visitors through leadership, partnership and the provision of effective and community focused services.

Values

Our corporate values guide our decision-making and actions everyday.

We show respect.

We treat everyone equitably with compassion, sensitivity and respect.

We serve Niagara.

We serve Niagara with pride, care and excellence.

We value honesty.

We value honesty, integrity and trust.

We promote choice.

We believe in social, environmental and economic choices that support our diverse community.

We foster partnerships.

We foster collaboration and value partnerships.

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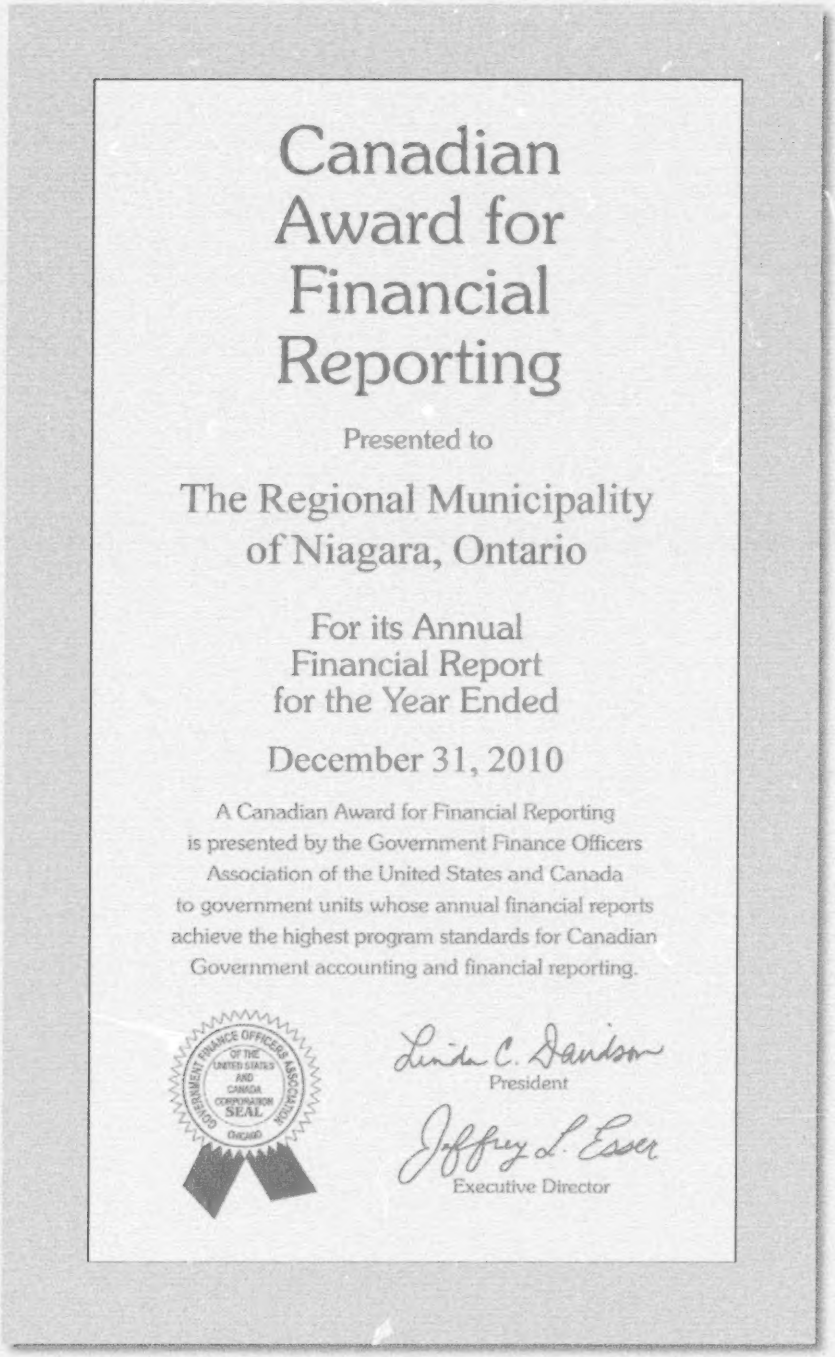
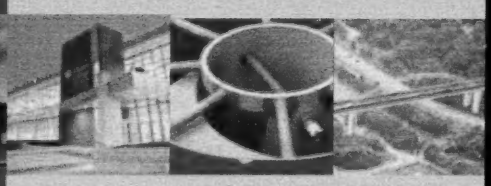


For the seventh year in a row, Niagara Region received the Canadian Award for Financial Reporting. A recipient must publish an easily readable and efficiently organized annual financial report, whose contents conform to program standards. Such reports should be beyond the minimum requirements of generally accepted accounting principles and demonstrate an effort to clearly communicate the financial picture, enhance an understanding of financial reporting and address user needs.

2011
Year in Review

Building Community. Building Lives.



The Regional Municipality of Niagara,
Ontario, Canada

The fiscal year ending December 31, 2011

Prepared by the Office of the
Chief Administrative Officer and the
Corporate Services Department

Niagara Regional Government

With a name made famous by a waterfall that attracts millions of visitors each year, Niagara is a culturally rich and historically significant region offering its 431,000 residents a mix of urban and rural living. One of the world's most fertile regions, Niagara boasts a diverse economy that includes manufacturing, tourism, agriculture and emerging sectors such as new media, green technology and bioscience. Located between two Great Lakes, Erie and Ontario, Niagara's many natural features and proximity to Toronto and to the United States, with which it shares a border, continue to shape the region's evolution as a centre of commerce and international tourism destination.

Niagara Region is one of six regional governments in Ontario. On January 1, 1970, under the Regional Municipality of Niagara Act, 26 municipalities were merged into 12 area or lower tier municipalities and the counties of Lincoln and Welland were transformed into the upper-tier municipality of Niagara Region.

Regional government responsibilities, as delegated by the province of Ontario, include:

- Policing
- Waste management
- Public health
- Long-term care
- Social housing
- Economic development
- Conservation and management of natural resources
- Water and wastewater
- Regional arterial roads
- Social assistance
- Children's services
- Paramedic and emergency services
- Planning services
- Provincial offences

Regional government operations are overseen by Niagara Regional Council which is composed of 30 elected representatives from 12 area municipalities, plus the Regional Chair. The current Regional Council was elected in October 2010 and the 31 members will serve for a four-year term to November 30, 2014.

Corporate Organization Chart

Niagara Citizens:
431,000 residents

Regional Council:
Regional Chair, Gary Burroughs
and 30 Councillors

Executive office:
Chief Administrative Officer, Mike Trojan

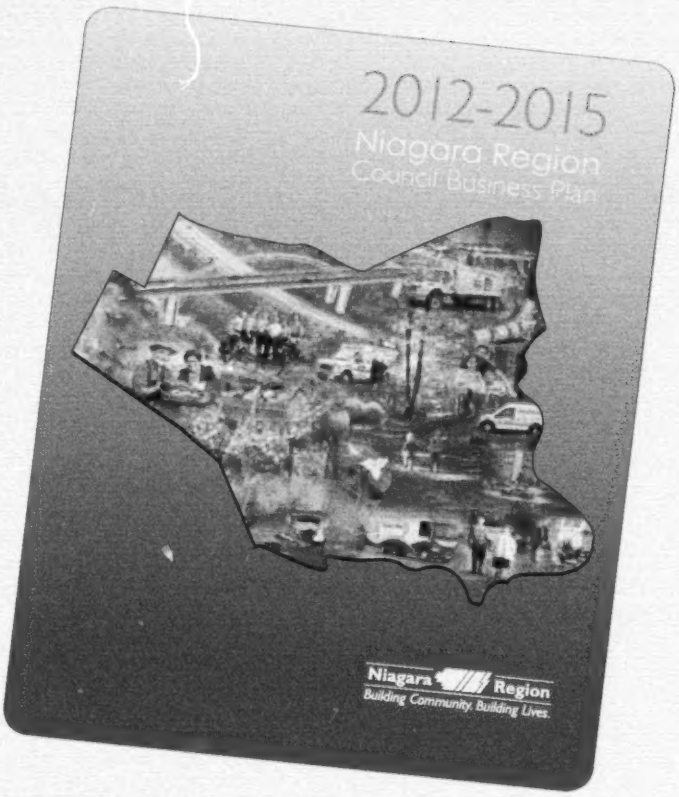
Five Operating Departments:
Community Services, Corporate Services,
Integrated Community Planning,
Public Health, Public Works

2012 – 2015 Council Business Plan

Providing responsive, effective services to residents is a primary goal of Niagara Region. We are committed to carrying out a business plan focused on building and sustaining a strong, healthy and vibrant region. The 2012 – 2015 Council Business Plan outlines the key objectives Council has set for its term in office. It was developed with input from Council members, residents, community partners, business leaders and area municipalities.

Themes for 2012 – 2015

- **A Responsive Region**
  Be known for its effective decision-making, strong partnerships, clear accountability and service excellence
- **Healthy Community**
  Support a safe, healthy, diverse, culturally rich community where people of all ages and incomes enjoy a high quality of life
- **Open for Business**
  Become a prime destination for investment and encourage the growth of a diversified and sustainable economic base
- **Environmentally Responsible**
  Increase the health and sustainability of its physical infrastructure and natural environment for current and future generations
- **Integrated Transportation System**
  Work collaboratively with others to strengthen and coordinate the transportation system and services, and support alternative choices for people and goods to move within and beyond the region
- **Governance Review**
  Undertake a governance review to enhance its organizational and decision-making capacity to more effectively and efficiently represent the residents of Niagara
- **Public Engagement and Communications**
  Have a consistent and compelling message to be a great place in which to live, study, work, visit and invest



To view the full plan, which includes key action items, visit **www.niagararegion.ca.**

2010 - 2014 Regional Council

Front row, left to right:

Bill Hodgson, Lincoln - Mayor
Barry Sharpe, Welland - Mayor
Brian McMullan, St. Catharines - Mayor
Vance Badawey, Port Colborne - Mayor
Gary Burroughs, Niagara-on-the-Lake - Regional Chair
April Jeffs, Wainfleet - Mayor
Douglas Martin, Fort Erie - Mayor
Bob Bentley, Grimsby - Mayor
Douglas Joyner, West Lincoln - Mayor

Centre row, left to right:

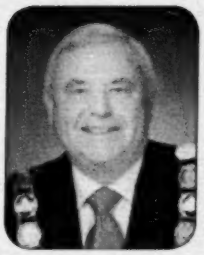
Cindy Forster, Welland*
(resigned to run in provincial election)
George Marshall, Welland
Ted Luciani, Thorold - Mayor
Dave Augustyn, Pelham - Mayor
Dave Lepp, Niagara-on-the-Lake
David Barrick, Port Colborne
Debbie Zimmerman, Grimsby
Jim Diodati, Niagara Falls - Mayor
Selina Volpatti, Niagara Falls
Brian Baty, Pelham
Rona Katzman, St. Catharines
Tim Rigby, St. Catharines
Brian Heit, St. Catharines

Back Row, left to right:

Henry D'Angela, Thorold
Bruce Timms, St. Catharines
Mark Bylsma, Lincoln
Dave Eke, Niagara-on-the-Lake - Lord Mayor
Alan Caslin, St. Catharines
Bart Maves, Niagara Falls
Andrew Petrowski, St. Catharines
John Teal, Fort Erie
Barbara Greenwood, Niagara Falls

* Peter Kormos was elected to Regional Council representing Welland in March 2012.

Message from Regional Chair and Chief Administrative Officer



Gary Burroughs,
Regional Chair

Mike Trojan,
CAO

Niagara's Regional government worked ambitiously in 2011 to advance the region's social and economic interests in a variety of ways.

Council passed not one, but two budgets, achieved by revising the 2012 budget planning schedule to allow for more timely consultation with residents prior to finalization. Both the 2011 and 2012 budgets provide a balance of taxpayer affordability with minimal increases that protect the long-term sustainability of Niagara's infrastructure and social services.

We pursued our "open for business" priority by further developing a new model for Regional economic development – one that would bring this vital function "in-house" with a Regional team of staff focused on delivering an expanded suite of services in partnership with a range of business, municipal and other stakeholders.

The launch of a three-year inter-municipal transit pilot, achieved through a partnership with Niagara's three transit services, was a major step in 2011 toward an integrated transit system.

As part of our focus on service excellence and operational efficiency, a Responsive Region Improvement Team was established with a mandate to review operations with the goal of identifying cost savings, alternative service delivery options and other performance activities.

We also laid the groundwork for some exciting initiatives in 2012. We secured a Heritage Canada designation as a Cultural Capital of Canada for 2012 and began planning an exciting program of events and activities to showcase Niagara's vibrant arts and cultural community. The Region is also proud to partner in the War of 1812 bicentennial celebrations, taking advantage of another opportunity to share our rich history with local, national and international audiences.

The Region is moving forward with a renewed commitment to addressing our biggest challenges, working collaboratively with our municipal and business partners, community organizations and other groups and individuals. Council and staff remain dedicated to providing good government in support of a Niagara with more and better opportunities for all.

Gary Burroughs
Regional Chair

Mike Trojan
Chief Administrative Officer

Corporate Management Team

Mike Trojan
Chief Administrative Officer

Dr. Valerie Jaeger
Medical Officer of Health

Katherine Chislett
Commissioner,
Community Services

Brian Hutchings
Commissioner,
Corporate Services/Treasurer

Ken Brothers
Commissioner,
Public Works

Patrick Robson
Commissioner,
Integrated Community
Planning

Regional Council Committees

- Corporate Services Committee
- Public Health and Social Services Committee
- Integrated Community Planning Committee
- Public Works Committee

Office of the Chief Administrative Officer

- Corporate Services Department
- Integrated Community Planning Department
- Community Services Department
- Public Health Department
- Public Works Department

Boards and Agencies - 2012

Provincial Offences Act

Ken Beaman, Chair
Bill Bernard, Associate Director, Court Service

Police Services Board

Henry D'Angela, Chair
Todd Shoalts, Vice-Chair
Deb Morton, Executive Director

Niagara Peninsula Conservation Authority

Bart Maves, Chair
Tony D'Amario, Chief Administrative Officer/Secretary-Treasurer

***Niagara Economic Development Corporation**

Gary Burroughs, Chair

Niagara Regional Housing

Karen Murray, Chair
Lora Beckwith, General Manager

Other Supporting Services

Auditors

KPMG LLP

Fiscal Agents

National Bank Financial Inc.
RBC Capital Markets
CIBC World Markets Inc.

Fiscal Solicitor

Borden Ladner Gervais

Insurance Broker

HUB International Ontario Limited

Banker

The Royal Bank of Canada

** at the time of printing*

Taxpayer affordability

Council passed both its 2011 and 2012 budgets in the same calendar year, thanks to an earlier start to the budget planning process for the 2012 budget. Both budgets emphasized restraint as the Region responded to continuing economic challenges. The 2011 budget delivered a tax decrease of 1.37 per cent after assessment growth ($18 for the average home) while the 2012 budget included a 3.22 per cent increase after assessment growth ($41 for the average home). The budgets achieved the goal of balancing taxpayer affordability with sustainable planning for future needs.

Responsive Region Improvement Team

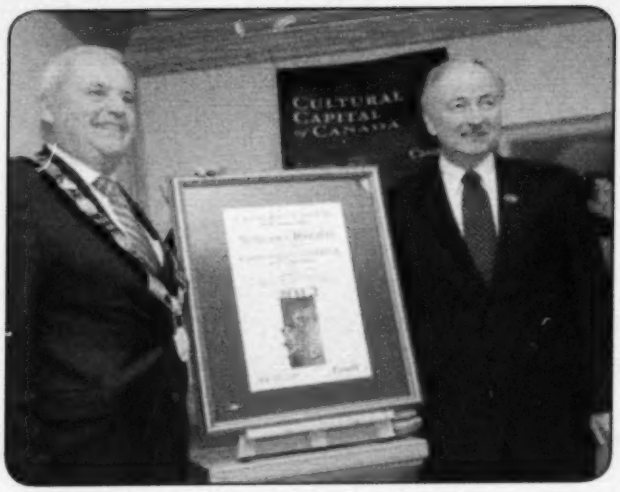
In keeping with the Region's commitment to balancing affordability and the delivery of high quality programs and services, Regional Council approved the creation of a Responsive Region Improvement Team. The three-member staff team will undertake a number of activities such as assessing the potential for and benefits of process improvements, identifying cost savings, alternative service delivery options, business or function cessation, identifying areas that may need reinvestment, and identifying alternate revenue sources such as the sale of assets. The work of the team is complementing efforts already underway in departments aimed at process improvements and cost reduction.

Investing in infrastructure

Public Works completed an extensive number of major projects and initiatives, including all Infrastructure Stimulus Fund projects, which finished on time and on or below budget. These projects aimed to improve, replace or build new infrastructure in communities across Niagara and included:

- Upgrades to the Baker Road, Seaway and Niagara Falls sewage treatment plants in Grimsby, Port Colborne and Niagara Falls
- Construction of the Frenchman's Creek trunk sewer in Fort Erie
- Reconstruction of Fly Road and Mountain Road in Lincoln and Niagara Falls
- Expansion of the Niagara District Airport

The department also began the implementation of the iDARTS project to improve service delivery and tracking on development applications and projects. As well, Public Works began the process for a water and wastewater service review to bring enhancement to the delivery of these services. Significant improvements were made to waste collection services through a new collection contract. Changes to curbside waste collection helped achieve a 13 per cent increase in recycling in Niagara.



Celebrating our culture and heritage

Niagara was designated a 2012 Cultural Capital of Canada by Heritage Canada, an achievement that comes with $1.6 million in funding to support a year-long program of events and activities to celebrate and strengthen Niagara's rich and vibrant arts and culture community. The Region led the development of our successful application, working with partners from across Niagara, and is contributing an additional $667,000 to the celebrations. The timing of the Cultural Capital designation coincides with the bicentennial of the War of 1812. Given the major role Niagara played as battleground in the war, the Region is actively involved in the planning of celebrations and events that will commemorate 200 years of peace with our American neighbours.

Fighting poverty

For the fourth consecutive year, Regional Council invested $1.5 million in the Niagara Prosperity Initiative (NPI), funding 30 anti-poverty, community-building projects delivered by 21 agencies in 16 neighbourhoods across Niagara. Examples of projects include youth outreach, before and after-school and summer programs, and literacy and athletic programs. The NPI is a proactive response to the issue of poverty in Niagara, which was explored in a 2007 report commissioned by Niagara Region Community Services and updated in 2011.

Investing in our seniors

Ground was broken for the redevelopment of Deer Park Villa, the Region's long-term care home in Grimsby. The $8.6 million project will see the existing 39-bed home replaced with a new, modern facility featuring private and semi-private rooms, spacious common areas, and provision for future expansion to meet the anticipated need for long-term care in West Niagara. The Province of Ontario is contributing $3.2 million toward the project, which is expected to be completed in February 2013. The Region has owned and operated the home since acquiring it from the West Lincoln Memorial Hospital in 2003.

New station for police and paramedics in Fort Erie

Construction of a new joint police and ambulance station in Fort Erie began in 2011. When completed in Spring 2012, the $3.1 million, 15,000 square foot facility will house 44 Niagara Regional Police Service personnel and up to 30 Niagara Emergency Medical Services staff. The project marks the first time the two Niagara Region services will share the same facility.

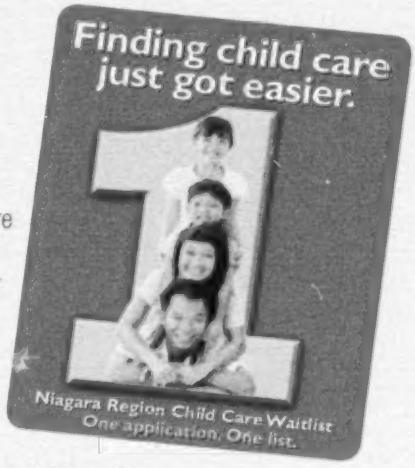
Mobile dental clinic

Launched in October, Niagara's mobile dental clinic travels throughout the region visiting schools and community agencies providing free preventive dental care to children and youth. The fully equipped dental clinic is housed in a 33-foot RV and staffed with a registered dental hygienist and certified dental assistant. The mobile dental clinic is funded by the Ministry of Health and Long Term Care and is one component of the new Healthy Smiles Ontario program.

Region welcomes new commissioners

Two new commissioners joined the Corporate Management Team in 2011. Dr. Valerie Jaeger became Commissioner of Public Health and Medical Officer of Health. Formerly the Region's Associate Medical Officer of Health, Dr. Jaeger is responsible for the public health of Niagara by providing leadership and expertise in health protection, disease prevention, health promotion, injury prevention programs and Niagara Emergency Medical Services. Katherine Chislett joined the Region as Commissioner of Community Services. Formerly with the City of Toronto, Katherine leads the Region's largest department with 1,300 employees. Its three divisions – Children's Services, Seniors Services and Social Assistance and Employment Opportunities – work to improve the quality of life and social well-being through a variety of programs and services.

Supporting parents



Niagara Region Children's Services developed a centralized, online child care waitlist to make the job of finding child care easier for parents. The web-based waitlist allows parents to apply for any licensed child care or before- and after-school program of their choice, eliminating the need to apply with multiple providers. The waitlist also eliminates the need for individual child care providers to manage their own waitlist.

Staff recognized for excellence

Niagara Region is committed to excellence and supports staff in a variety of ways to foster their professional development. Many staff are recognized throughout each year for their contributions to the Region and to their professions. Worthy of note in 2011 include:

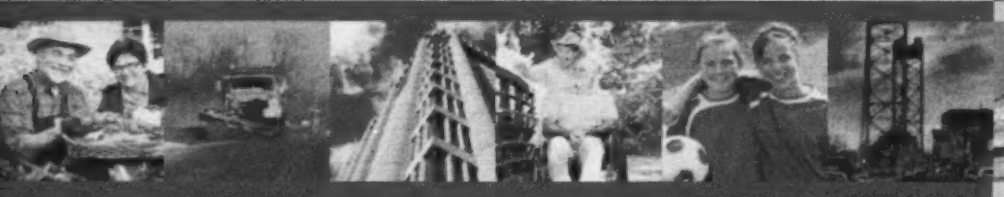
- Patrick Robson, Commissioner of Integrated Community Planning and Drew Semple, Senior Planner (retired 2011), received the Ontario Professional Planners Institute Excellence in Planning Award for Value Added farm policies in the Research and New Directions category.
- Ken Brothers, Commissioner of Public Works, was inducted into the International Water Association (IWA) Fellows Program. This program recognizes extraordinary individuals within the community of water professionals. IWA Fellows work to advance knowledge and best practices in water management. With a unique specialization in water loss and water system optimization, Ken has travelled around the world providing insight and expertise aimed improving the management of water resources, particularly in areas of the world with challenging arid conditions and scarce water resources.
- Our Regional Clerk, Kevin Bain, was designated as a Master of Municipal Clerk. This is a prestigious and sought-after designation that is difficult to acquire, requiring significant study.
- Nine members of Niagara Emergency Medical Services received the Governor General's Exemplary Service medal. The medal recognizes outstanding contributions to the emergency medical service profession. Recipients of the medals were Deralyn George-Mackenzie, David Herbert, Tim Kares, Leonard Kowalik, Karen Lutz, Steve Malone, Evelyn Marcotte, Basil Riolino and Mark Thomas.
- Brian Hutchings, Commissioner of Corporate Services/Treasurer, was presented with the Business Education Council (BEC) PenFinancial Credit Union Community Partner Award. The award recognizes a local community partner who has enhanced opportunities for personal growth for residents of Niagara.
- Dr. Valerie Jaeger, Medical Officer of Health and Commissioner of Public Health, was honoured with a YWCA Women of Distinction Award in the category of Community Involvement. The award recognizes women with outstanding vision, initiative and leadership ability that have made a difference in the Niagara community.
- IT Solutions, a division of Corporate Services, earned an Urban and Regional Information Systems Association's Gold Award for "Best Web GIS". This award is presented to organizations that have demonstrated advanced internet/intranet mapping services that enable publishing and sharing of geographic information through the integration of multiple business systems.

Support for charity

The 14th Annual Niagara Regional Chair's Charity Golf Tournament raised over $100,000 in support of several charities: The Hope Centre, Port Cares, West Niagara YMCA, and the Niagara Community Foundation. Since the tournament's inception, more than a $1 million has been raised for local charities with the support of more than 2,500 participants and volunteers. Meanwhile, Regional employees set a new record for donations to the United Way, contributing $205,507 during the 2011 annual giving campaign, exceeding the goal of $200,000.

Building Community. Building Lives.

2011 Financial Year in Review



- Report from the Treasurer
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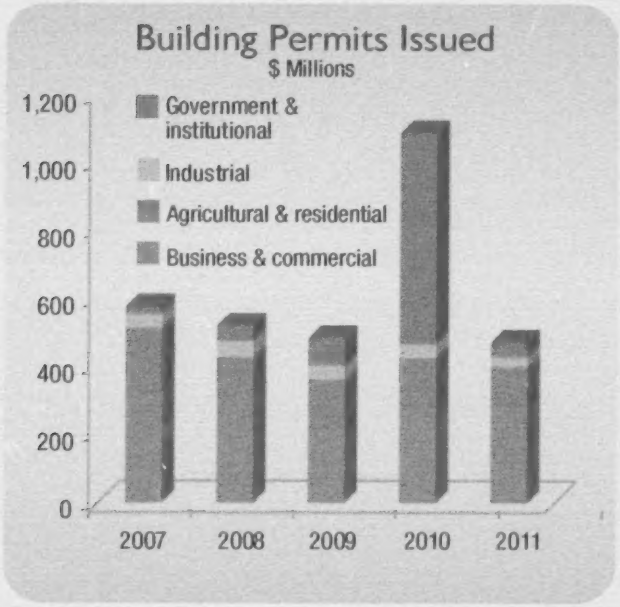
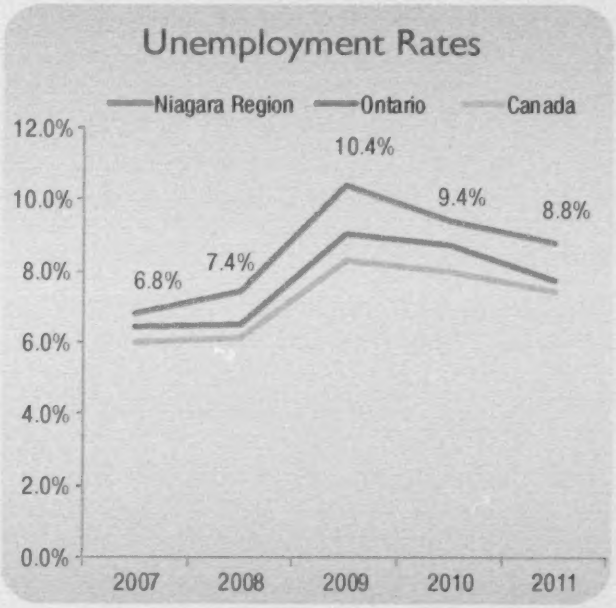
The Niagara Region provides programs and services to 431,000 residents in 12 local area municipalities.

Niagara Region's Economy

In 2011, housing starts of 1,110 permits were maintained above historical levels. Niagara's unemployment rate decreased from 9.4 per cent to 8.8 per cent. Building permit values of $471 million decreased substantially over prior year as large permits were issued in 2010 for the new Cancer Centre and Brock BioScience Centre.

While the employment outlook improved, the region continued to see an increase in the average monthly social assistance caseload from 9,790 people in 2010 to 10,302 people to 2011, representing a 5.3 per cent increase. Community Services continues to work diligently with each Ontario Works case and the province to provide programs to help clients find employment opportunities.

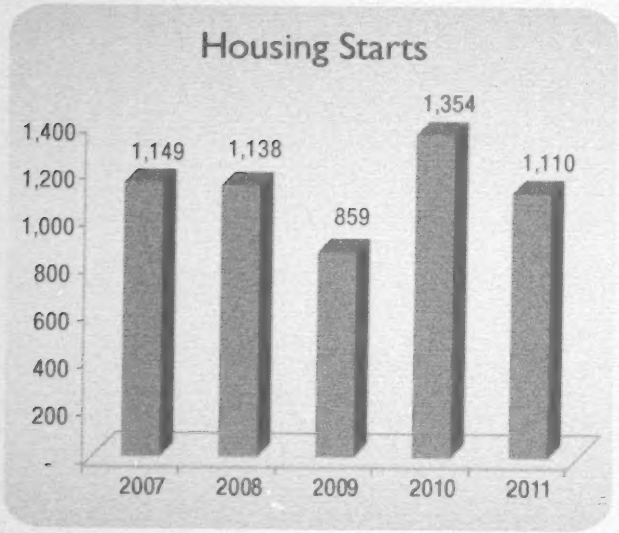


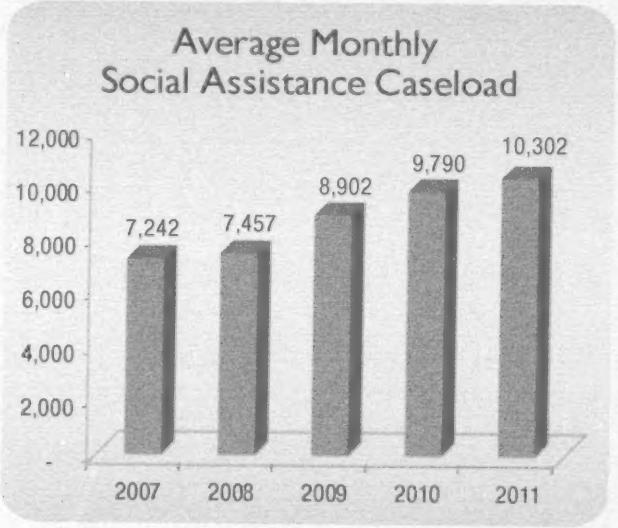


Looking forward, staff and Council have identified economic development and job creation as a primary objective. The 2012 budget provided funding for:

- Inter-municipal transit to improve mobility of residents
- A new economic development model that will support business growth and job creation
- Increasing the Smarter Niagara Incentive Programs from $750,000 to $1 million to support sustainable community development by leveraging private sector investment

On-going initiatives with respect to the economic corridor and development charges are being designed to encourage development in a responsible, sustainable, and affordable manner. Partnerships and relationships with the business, not-for-profit, municipal, hospital, and academic community are continuing development.





Property Taxes

On December 1, 2011, Council approved a 2012 tax levy increase of 3.22 per cent after assessment growth. The average homeowner with a residence valued at $227,147 will experience a $41 tax increase. This increased followed a 1.37 per cent reduction after assessment growth approved in the 2011 budget. In the past five years (2008-2012) the cumulative Niagara Region tax levy after assessment growth is 3.05 per cent.

Recent analysis performed by outside subject matter experts illustrated that the region maintains a competitive advantage with respect to property taxes on commercial and industrial properties. The review noted that while property tax rates are equal to or higher than other jurisdictions, assessment values representing the cost of capital in the region is on average lower than other jurisdictions. This has resulted in office buildings paying approximately 10 per cent per square foot less than other jurisdictions, residual industrial paying approximately 3 per cent per square foot less than other jurisdictions, and large industrial paying approximately 20 per cent per square foot less than other jurisdictions.

Audit Committee

The Niagara Region has an audit committee responsible for ensuring:

- Niagara Region's annual consolidated financial statements are presented in accordance with public sector accounting standards and to recommend to Council the annual consolidated financial statements be approved
- Niagara Region has implemented appropriate systems of internal control over financial reporting and they are operating effectively
- Niagara Region has implemented appropriate systems of internal control to ensure compliance with legal and regulatory requirements
- The external audit function has been effectively carried out and any matter the independent auditors bring to the attention of the audit committee or Council has been addressed

Subsequent to year end the terms of reference of the audit committee has been adjusted to incorporate a mandate for performance improvement supported by management and the Responsive Region Improvement Team. This decisive action has been taken to establish a framework for Council to coordinate and support service enhancement, cost avoidance, and cost savings initiatives.

Report from the Treasurer

Financial Management and Control

The Niagara Region maintains a system of internal controls designed to safeguard asset and ensure transactions are properly authorized and recorded in compliance with legislative and regulatory requirements. The financial management and controls systems of the Niagara Region are governed by various by-laws, policies, and procedures. The Niagara Region's systems of internal controls are monitored and evaluated by management and subject to independent audit.

Audited Consolidated Financial Statements

The consolidated financial statements have been prepared in accordance with Canadian public sector accounting standards as recommended by the Canadian Institute of Chartered Accountants. The statements and related information are the responsibility of management and include financial activities of all entities deemed to be controlled by the Niagara Region, including the Niagara Regional Police Service Board, Niagara Regional Housing, and the Provincial Offences Court Administration.

The Municipal Act of Ontario requires the Niagara Region to appoint an independent auditor to express an opinion as to whether the financial statements presently fairly, in all material respects, the Niagara Region's financial position and operating results. In discharging this responsibility, the auditors have complete access to all Niagara Region records and meet regularly with staff to discuss policies, procedures, and process improvements arising from the audit. The auditors provide to Audit Committee a written audit findings report and management letter dealing with the adequacy of internal financial control systems as well as an audit opinion on the results of the financial statement audit.

Consistent with prior years the Niagara Region has received an unqualified audit opinion.

Financial Highlights

The Niagara Region provides a wide range of program services to its residents in the areas of general government, protections to persons and property, transportation services, environmental services, public health, social and family services, social housing, and planning and development.

Consolidated Statement of Financial Position

The consolidated statement of financial position reports on Niagara Region's financial and non-financial assets, liabilities and accumulated surplus at December 31.

Net Financial Assets (Net Debt)

Public Sector accounting standards require the Niagara Region to distinguish between financial and physical assets. Financial assets are those assets on hand, which would provide resources to discharge liabilities or finance future operations. The difference between financial assets and liabilities, or net financial assets (net debt), is an indicator of the Niagara Region's ability to finance future activities and to meet its liabilities and commitments.

During the year Niagara Region moved from a net debt position of $22.1 million to a net financial asset position of $15.9 million. The shift to a net financial asset balance resulted from the repayment of $30 million of net debt.

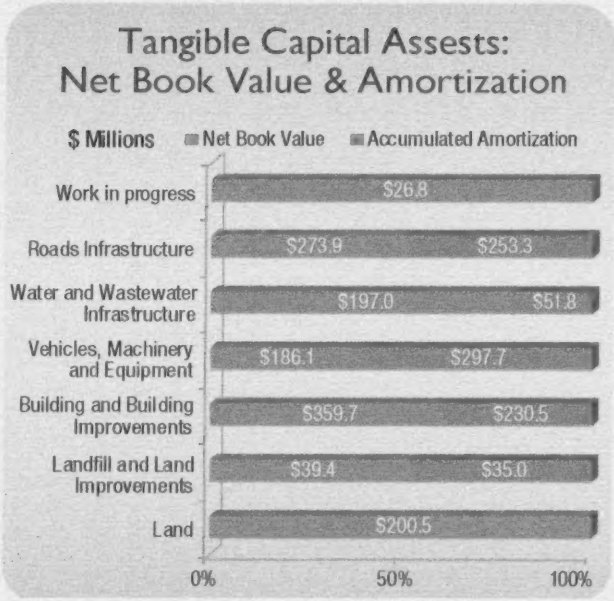
Tangible Capital Assets

Tangible capital assets are significant economic resources managed by the Niagara Region and a key component in the delivery of many programs and services.

The net book value of tangible capital assets reported in the consolidated statement of financial position is $1,283 million and is highlighted by category in the accompanying chart. Total historical costs are $2,151 million and the total accumulated amortization is $868 million, implying that 40.4 per cent of the estimated useful life of Niagara Region's tangible capital assets has been used in the delivery of programs and services. Amortization can be used to estimate future capital spending requirements with the understanding that asset replacement costs may be significantly higher than historical cost.

During the year the Niagara Region acquired $89 million of tangible capital assets. The amortization expense reported in the statement of operations amounted to $61 million.

Tangible capital asset acquisitions are approved by Council ensuring that the appropriate funding is in place.

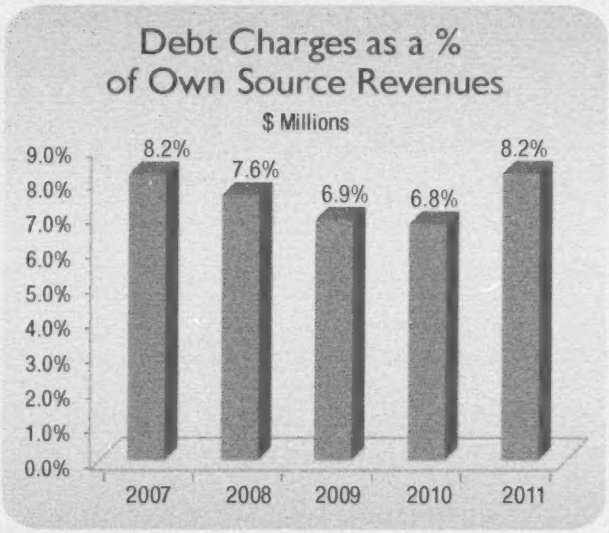


Debt Position

The Niagara Region maintains an AA (stable) credit rating confirmed annually by Standard and Poor's.

The Niagara Region's debt practices are governed by provincial legislation and Council. The province's prescribed annual debt repayment limit stipulates that payments relating to all debt and other long-term financial obligations of a municipality may not exceed 25 per cent of own source revenues. This includes the annual tax levy, rate generated revenue, and user fees.

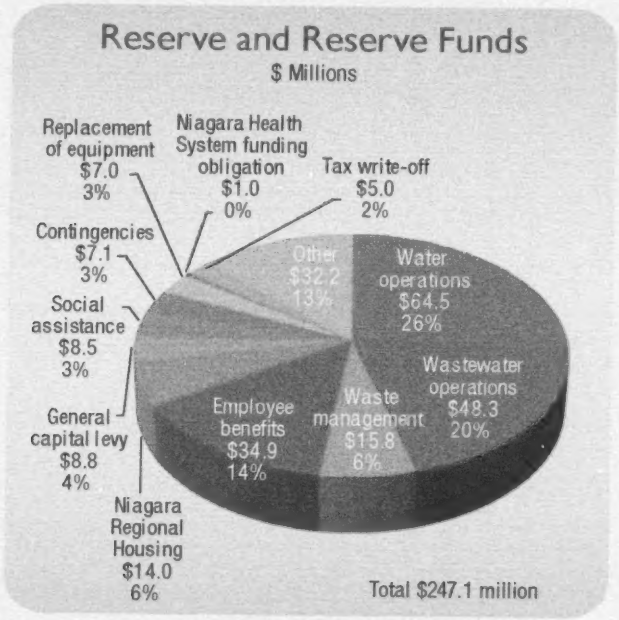
The Niagara Region, by way of provincial legislation, also issues all debt for the 12 local area municipalities and the conservation authority. The total debt recorded on the consolidated statement of financial position is $483 million or $1,119 per resident up from $477 million or $1,075 per resident in 2010. The debt attributed to the Niagara Region (total debt less debt recoverable from others) is $266 million or $616 per resident, down from $296 million or $666 per resident in 2010. Niagara Region's debt charges (principal and interest) totaled $44.2 million or 8.2 per cent of own source revenue up from $35.5 million or 6.8 per cent in 2010.



Accumulated Surplus

The accumulated surplus represents the net asset position (financial assets plus non-financial assets less financial liabilities) of the Niagara Region.

The accumulated surplus balance of $1,316 million consist of a $1,018 million investment in tangible capital assets, $247 million in reserves and reserve funds, $175 million unexpended capital financing, a $3 million operating fund deficit, and $121 million in unfunded liabilities. The reserve and reserve fund of $247 million are highlighted by designed purpose in the accompanying chart.


Reserve and Reserve Funds
$ Millions
Replacement of equipment $7.0 3%
Niagara Health System funding obligation $1.0 0%
Tax write-off $5.0 2%
Contingencies $7.1 3%
Social assistance $8.5 3%
General capital levy $8.8 4%
Niagara Regional Housing $14.0 6%
Other $32.2 13%
Water operations $64.5 26%
Wastewater operations $48.3 20%
Waste management $15.8 6%
Employee benefits $34.9 14%
Total $247.1 million

Report from the Treasurer

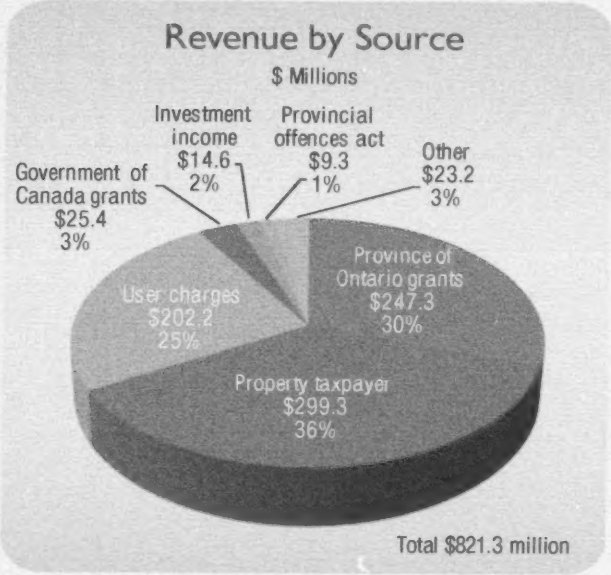
Consolidated Statement of Operations

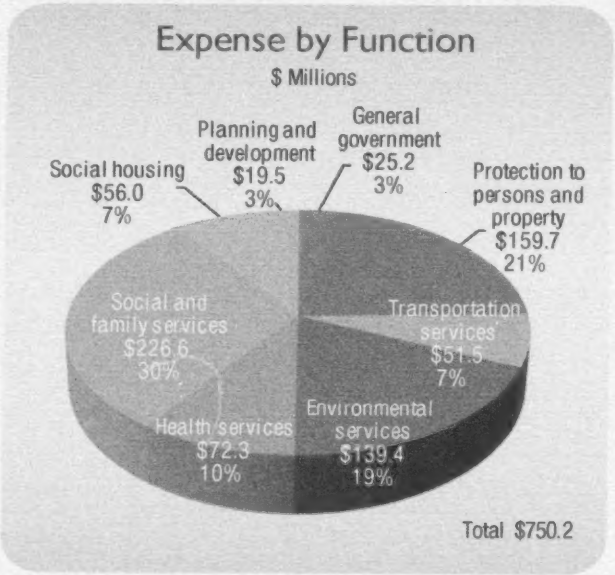
The consolidated statement of operations reports the Niagara Region's change in economic resources and accumulated surplus. During the year annual revenues exceeded expenses resulting in a $71.1 million surplus in accordance with Canadian public sector accounting standards.

Comparison with Prior Year

In 2011, total revenues decreased by $135.7 million or 14.2 per cent. The major contributor to the decrease was the uploading of the Ontario Disability Support Payment program to the province. The decreased revenue is offset by lower social assistance payments.

Compared with 2010, total expenditures decreased by 128.3 million or 14.6 per cent. The reduced social assistance payments identified above as a result of provincial uploading where offset by inflationary pressures on salaries and materials and services.


Revenue by Source
$ Millions
Investment income $14.6 2%
Provincial offences act $9.3 1%
Other $23.2 3%
Government of Canada grants $25.4 3%
Province of Ontario grants $247.3 30%
User charges $202.2 25%
Property taxpayer $299.3 36%
Total $821.3 million


Expense by Function
$ Millions
Planning and development $19.5 3%
General government $25.2 3%
Social housing $56.0 7%
Protection to persons and property $159.7 21%
Social and family services $226.6 30%
Transportation services $51.5 7%
Health services $72.3 10%
Environmental services $139.4 19%
Total $750.2

Brian Hutchings, BComm, CGA
Commissioner of Corporate Services/Treasurer

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December 31, 2011

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Management's Responsibility for the Financial Statements

The accompanying financial statements of The Regional Municipality of Niagara (the "Region") are the responsibility of the Region's management and have been prepared in compliance with legislation, and in accordance with generally accepted accounting principles established by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants. A summary of the significant accounting policies are described in Note 1 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Region's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

The audit committee meets with management and the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the financial statements.

The financial statements have been audited by KPMG LLP, independent external auditors appointed by the Region. The accompanying Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Region's financial statements.

Brian Hutchings, BComm, CGA
Commissioner of Corporate Services/Treasurer

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Chartered Accountants
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Internet www.kpmg.ca

Independent Auditors' Report

To the Members of Council, Inhabitants and Ratepayers of
The Regional Municipality of Niagara

We have audited the accompanying consolidated financial statements of the Regional Municipality of Niagara, which comprise the consolidated statement of financial position as at December 31, 2011, the consolidated statements of operations, change in net financial assets (debt) and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated statement of financial position of the Regional Municipality of Niagara as at December 31, 2011, and its consolidated results of operations and the changes in its consolidated net financial assets (debt) and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
April 12, 2012
St. Catharines, Canada

KPMG LLP, is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. KPMG Canada provides services to KPMG LLP.

Consolidated Statement of Financial Position

December 31, 2011, with comparative figures for 2010
(In thousands of dollars)

	2011	2010
Financial assets:		
Cash	$ 87,144	$ 74,495
Investments (note 2)	407,540	420,772
Accounts receivable (note 3)	74,763	92,924
Other current assets	279	735
Debt recoverable from others (note 7)	217,154	181,705
	786,880	770,631
Financial liabilities:		
Accounts payable and accrued liabilities	97,009	121,931
Employee benefits and other liabilities (note 4)	82,659	81,293
Deferred revenue (note 5)	70,005	72,423
Landfill liability (note 6)	38,560	39,831
Long-term liabilities (note 7)	482,718	477,233
	770,951	792,711
Net financial assets (debt)	15,929	(22,080)
Non-financial assets:		
Tangible capital assets (note 8)	1,283,434	1,256,108
Inventory	3,872	3,766
Deposit (note 15)	4,814	-
Prepaid expenses	8,436	7,573
	1,300,556	1,267,447
Accumulated surplus (note 9)	$ 1,316,485	$ 1,245,367

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Operations

Year ended December 31, 2011, with comparative figures for 2010
(In thousands of dollars)

	Budget (Unaudited – note 18)	2011	2010
Revenues:			
Taxation and user charges:			
Requisitions on local governments	$ 300,530	$ 299,332	$ 301,841
User charges	194,295	202,225	194,310
	494,825	501,557	496,151
Government transfers:			
Government of Canada	25,201	25,444	46,545
Province of Ontario	233,316	247,313	385,276
Other municipalities	10,450	10,677	3,432
	268,967	283,434	435,253
Other:			
Development charges earned	6,895	7,040	2,364
Investment income	9,925	14,552	10,650
Provincial offences	7,531	9,321	8,869
Miscellaneous	2,480	5,372	3,821
	26,831	36,285	25,704
Total revenues	790,623	821,276	957,108
Expenses:			
General government	27,341	25,248	29,039
Protection to persons and property	156,493	159,678	149,221
Transportation services	51,863	51,548	55,011
Environmental services	137,141	139,361	121,208
Health services	73,743	72,342	72,331
Social and family services	226,200	226,537	375,712
Social housing	52,446	55,923	60,150
Planning and development	12,534	19,521	15,847
Total expenses	737,761	750,158	878,519
Annual surplus	52,862	71,118	78,589
Accumulated surplus, beginning of year	1,245,367	1,245,367	1,166,778
Accumulated surplus, end of year	$ 1,298,229	$ 1,316,485	$ 1,245,367

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Statement of Change in Net Financial Assets (Debt)

Year ended December 31, 2011, with comparative figures for 2010
(In thousands of dollars)

	Budget (Unaudited – note 18)	2011	2010
Annual surplus	$ 52,862	$ 71,118	$ 78,589
Acquisition of tangible capital assets	(88,630)	(88,630)	(155,506)
Amortization of tangible capital assets	60,590	60,590	57,576
Loss on sale of tangible capital assets	406	406	160
Proceeds on sale of tangible capital assets	208	308	884
Change in supplies of inventories	-	(106)	(356)
Change in deposit	-	(4,814)	-
Change in prepaid expense	-	(863)	(5,972)
Change in net financial assets (debt)	25,436	38,009	(24,625)
Net financial assets (debt), beginning of year	(22,080)	(22,080)	2,545
Net financial assets (debt), end of year	$ 3,356	$ 15,929	$ (22,080)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

December 31, 2011, with comparative figures for 2010
(In thousands of dollars)

	2011	2010
Operating Activities:		
Annual surplus	$ 71,118	$ 78,589
Items not involving cash:		
Amortization	60,590	57,576
Loss on sale of tangible capital assets	406	160
Change in employee benefits and other liabilities	1,366	2,021
Change in landfill liability	(1,271)	(5,087)
Change in non-cash assets and liabilities:		
Accounts receivable	18,161	(21,418)
Other current assets	456	1,193
Accounts payable and accrued liabilities	(24,922)	31,258
Deferred revenue	(2,418)	4,646
Inventory	(106)	(356)
Deposit	(4,814)	-
Prepaid expenses	(863)	(5,972)
Net change in cash from operating activities	117,703	142,610
Capital Activities:		
Proceeds on sale of tangible capital assets	308	884
Cash used to acquire tangible capital assets	(87,537)	(155,506)
Net change in cash from capital activities	(87,229)	(154,622)
Investing Activities:		
Proceeds from investments	251,884	397,320
Purchase of investments	(238,652)	(480,168)
Net change in cash from investing activities	13,232	(82,848)
Financing Activities:		
Debt issued and assumed	-	152,342
Long-term debt repaid	(31,040)	(24,386)
Increase in sinking fund assets	(17)	-
Net change in cash from financing activities	(31,057)	127,956
Net change in cash	12,649	33,096
Cash, beginning of year	74,495	41,399
Cash, end of year	$ 87,144	$ 74,495
Cash paid for interest	$ 13,620	$ 10,306
Cash received from interest	14,388	10,147
Non-cash investing and financing activities:		
Tangible capital asset acquisition funded by capital lease borrowings	1,093	-
Debt issued on behalf of others	59,669	43,865

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

Year ended December 31, 2011
(In thousands of dollars)

1. Significant accounting policies:

The consolidated financial statements of The Regional Municipality of Niagara (the "Region") are prepared by management in accordance with Canadian public sector accounting standards as recommended by the Canadian Institute of Chartered Accountants. Significant accounting policies adopted by the Region are as follows:

(a) Basis of consolidation:

(i) Consolidated entities:

The consolidated financial statements reflect the assets, liabilities, revenues, expenses and fund balances of the reporting entity. The reporting entity is comprised of all organizations, committees and local boards accountable for the administration of their financial affairs and resources to the Region and which are owned or controlled by the Region. These entities and organizations include:

Niagara Regional Police Services

Niagara Regional Housing

Provincial Offences Act Operations

Niagara Economic Development Corporation

Interdepartmental and inter-organizational transactions and balances between these organizations are eliminated.

(ii) Trust funds:

Trust funds and their related operations administered by the Region are not included in these financial statements.

(b) Basis of accounting:

The Region follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

(c) Investments:

Investments consist of bonds and money market notes and are stated at the lower of cost and market value. Gains and losses on investments are recorded when incurred.

Notes to Consolidated Financial Statements

Year ended December 31, 2011
(In thousands of dollars)

1. Significant accounting policies (continued):

(d) Non-financial assets:

Non financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(i) Tangible Capital assets:

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land and landfill sites, are amortized on a straight line basis over their estimated useful lives as follows:

Asset	Useful Life - Years
Land improvements	3 - 50
Buildings and building improvements	3 - 60
Vehicles	4 - 20
Machinery and equipment	3 - 60
Water and wastewater infrastructure	60 - 100
Roads infrastructure - Base	40
- Surface	10

Landfill sites are amortized using the units of production method based upon capacity used during the year.

One half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

(ii) Contributions of tangible capital assets:

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also are recorded as revenue.

(iii) Intangible assets:

Intangible assets and natural resources that have not been purchased are not recognized as assets in the financial statements.

(iv) Interest capitalization:

The Region's tangible capital asset policy does not allow for the capitalization of interest costs associated with the acquisition or construction of a tangible capital asset.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011
(In thousands of dollars)

1. Significant accounting policies (continued):

(d) Non-financial assets (continued):

(v) Leases:

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as capital leases. All other leases are accounted for as operating leases and the related payments are charged to expenditures as incurred.

(vi) Inventories:

Inventories held for consumption are recorded at the lower of cost and replacement cost.

(e) Reserves and reserve funds:

Certain amounts, as approved by Regional Council, are set aside in reserves and reserve funds for future operating and capital purposes. Transfers to and/or from reserves and reserve funds are an adjustment to the respective fund when approved. Reserves and reserve funds are presented on the statement of financial position in accumulated surplus.

(f) Government transfers:

Government transfers received relate to social services, child care, housing and health programs. Government transfers paid relate to social services programs. Transfers are recognized in the financial statements in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

(g) Deferred revenue:

Deferred revenues represent development charges, grants, user charges and fees which have been collected but for which the related services have yet to be performed. These amounts will be recognized as revenues in the fiscal year the services are performed.

(h) Investment income:

Investment income earned is reported as revenue in the period earned. Investment income earned on development charge reserve funds is added to the fund balance and forms part of the deferred development revenue balance.

(i) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Significant estimates include assumptions used in estimating provisions for accrued liabilities, landfill liability and in performing actuarial valuations of employee future benefits. Amounts recorded for amortization of tangible capital assets are based on estimates of useful service life. Actual results could differ from these estimates.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011
(In thousands of dollars)

2. Investments:

Investments reported on the consolidated statement of financial position have market values as follows:

	2011		2010	
	Cost	Market Value	Cost	Market Value
Investments	$ 407,540	$ 420,211	$ 420,772	$ 424,789

3. Accounts receivable:

Accounts receivable are reported net of a valuation allowance of $2,173 (2010 - $2,541).

4. Employee benefits and other liabilities:

The Region provides certain employee benefits which will require funding in future periods. These benefits include sick leave, benefits under the Workplace Safety and Insurance Board ("WSIB") Act, and life insurance, extended health and dental benefits for early retirees.

	2011	2010
Future payments required to WSIB	$ 22,166	$ 21,029
Accumulated Sick Leave Benefit Plan entitlements	16,299	16,415
Retiree benefits	30,824	29,551
Vacation pay	10,646	11,127
Other liabilities	2,724	3,171
Total	$ 82,659	$ 81,293

The Region has established reserve funds to mitigate the future impact of these obligations. These reserve funds are presented in the statement of financial position in accumulated surplus. Reserves relating to these liabilities are as follows:

	2011	2010
Workplace safety and insurance	$ 16,343	$ 16,110
Cumulative sick leave	2,984	3,117
Police accumulated sick leave	4,526	5,114
Future health and dental claims	4,276	3,461
Other PSAB liabilities	6,792	6,777
Total	$ 34,921	$ 34,579

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011
(In thousands of dollars)

4. Employee benefits and other liabilities (continued):

Information about the Region's benefit plans is as follows:

	2011	2010
Accrued benefit obligation:		
Balance, beginning of year	$ 83,935	$ 82,605
Current benefit cost	4,885	5,532
Interest	3,437	3,364
Benefits paid	(7,647)	(7,566)
Balance, end of year	84,610	83,935
Unamortized actuarial loss	(1,951)	(2,642)
Liability for benefits	$ 82,659	$ 81,293

Included in expenditures is $691 (2010 – $691) for amortization of the actuarial loss. The unamortized actuarial loss is amortized over the expected average remaining service life as listed below:

Accumulated Sick Leave Benefit Plan entitlements	9 - 11 years
Retiree benefits	12 - 16 years

The unamortized actuarial loss on future payments required to WSIB is amortized over the expected period of the liability which is 10 years.

Accumulated sick leave

Under the accumulated sick leave benefit plan, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the Region's employment.

WSIB

With respect to responsibilities under provisions of the Workplace Safety and Insurance Board ("WSIB") Act the Region has elected to be treated as a Schedule 2 employer and remits payments to the WSIB as required to fund disability payments. An actuarial estimate of future liabilities has been completed and forms the basis for the estimated liability reported in these financial statements. The most recent actuarial valuation was performed as at December 31, 2008.

The main actuarial assumptions employed for the valuation are as follows:

a) Interest (discount rate):
The obligation as at December 31, 2011, of the present value of future liabilities and the expense for the 12 months ended December 31, 2011, were determined using a discount rate of 5.0%.

b) Administration costs:
Administration costs were assumed to be 27.0% of the compensation expense.

c) Compensation expense:
Compensation costs, include loss of earnings benefits, health care costs and non-economic loss awards, were assumed to increase at rates ranging from 2.5% to 6.0%.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011
(In thousands of dollars)

4. Employee benefits and other liabilities (continued):

Retiree benefits

The Region pays certain life insurance benefits on behalf of the retired employees as well as extended health and dental benefits for early retirees to age 65 and Health Care Spending Accounts for certain retirees until the age of 70 or 75 depending on year of retirement. The Region recognizes these post-retirement costs in the period in which the employees rendered the services. The accrued benefit liability and the expense for the 12 months ended December 31, 2011, were determined by actuarial valuation using a discount rate of 5.0%. The most recent actuarial valuation was performed as at December 31, 2008.
The main actuarial assumptions employed for the valuations are as follows:

a) Interest (discount rate):

The obligation as at December 31, 2011, of the present value of future liabilities and the expense for the 12 months ended December 31, 2011, were determined using a discount rate of 5.0%.

b) Medical costs:

Medical costs were assumed to increase at the rate of 6 1/3% per year from 2011 reducing to 4.0% per year in 2018 and thereafter.

c) Dental costs:

Dental costs were assumed to increase at the rate of 4.0% per year.

Other pension plans

The Region makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

The amount contributed to OMERS for 2011 was $20,575 (2010 - $17,638) for current service and is included as an expenditure on the consolidated statement of operations. Employees' contribution to OMERS in 2011 was $20,575 (2010 - $17,638).

Contributions for employees with a normal retirement age of 65 were being made at rate of 7.4% for earnings up to the yearly maximum pensionable earnings of $48.3 and at a rate of 10.7% for earnings greater than the yearly maximum pensionable earnings. For uniformed police officers with a normal retirement age of 60, those rates were 8.9% and 14.1% respectively.

The OMERS pension plan has a deficit at December 31, 2011 of $7,290,000 based on actuarial valuation of plan assets. In response OMERS has increased contributions for both employees and employers by 1% for 2012 and an additional 0.9% for 2013. If actuarial surpluses are not available to offset the existing deficit and subsidize future contributions, additional increases in the contributions may be required.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011
(In thousands of dollars)

5. Deferred revenue:

A requirement of PSAB is that obligatory reserve funds be reported as deferred revenue. The Region treats development charges and gasoline tax as obligatory reserve funds. The Region has obligatory reserve funds in the amount of $50,135 (2010 - $42,531). These reserve funds are considered obligatory as Provincial and Federal legislation restricts how these funds may be used and, under certain circumstances, how these funds may be refunded.

In the case of development charges, revenue recognition occurs after the funds have been collected and when the Region has approved the expenditures for the capital works for which the development charges were raised. These funds have been set aside, as required by the Development Charges Act, to defray the cost of growth related capital projects associated with new development.

The deferred revenues, reported on the consolidated statement of financial position, are made up of the following:

	2011	2010
Development Charges	$ 35,995	$ 32,567
Gasoline Tax	14,140	9,964
Investing in Ontario Grant	10,617	10,617
Other deferred revenue	9,253	19,275
	$ 70,005	$ 72,423

In addition, transaction activity in the obligatory reserve funds includes:

	2011	2010
Contribution from Development Charges Act	$ 10,044	$ 10,406
Contribution from Gasoline Tax Program	13,111	13,111
Development charges earned	(7,040)	(2,364)
Gasoline tax revenue earned	(8,965)	(14,584)
Interest income	454	104
	$ 7,604	$ 6,673

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011
(In thousands of dollars)

6. Landfill liability:

The Region owns and operates a number of landfill sites as well as owning and monitoring several landfill sites which have been closed. The liability for closure of operational sites and post-closure care has been recognized based upon the usage of the site's capacity during the year. The costs were based upon the 2011 budget and inflation adjusted at rates from 1.5% to 3.0% per annum until the estimated year of closure. These costs were then discounted to December 31, 2011 using a discount rate of 5.5%. Post-closure care is estimated to be required for 25 years from the date of site closure. The liability for closure and post-closure care as at December 31, 2011 is $38,560 (2010 - $39,831). Estimated expenses for closure and post-closure care are $44,256 (2010 - $45,807). The liability remaining to be recognized is $5,696 (2010 - $5,976). It is estimated that the life of the sites ranges from 1 to 40 years.

7. Net long-term liabilities:

(a) In addition to long-term liabilities incurred directly, the Region has assumed the responsibility for the charges on debt originally incurred by local municipalities in respect of functions which are now a Regional responsibility.

As well as incurring long-term liabilities for regional purposes, the Region also incurs long-term liabilities on behalf of the Area Municipalities. The responsibility for raising the amounts required to service this debt lies with the respective Area Municipalities.

The balance of net long-term liabilities reported on the consolidated balance sheet is made up of the following:

	2011	2010
Long-term liabilities incurred by the Region (including capital lease)	$ 483,174	$ 475,871
Long-term liabilities assumed by the Region incurred by others	1,076	1,362
Less: Sinking fund assets	(1,532)	-
Long-term liabilities	482,718	477,233
Debt recoverable from others net of sinking fund assets (long-term liabilities incurred by the Region for which other entities have assumed responsibility)	(217,154)	(181,705)
Net long-term liabilities, end of year	$ 265,564	$ 295,528

(b) The long-term liabilities in (a) issued in the name of the Region have received approval of the Ontario Municipal Board for those approved on or before December 31, 1992. Those approved after January 1, 1993 have been approved by by-law. The annual principal and interest payments required to service these liabilities are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011
(In thousands of dollars)

7. Net long-term liabilities (continued):

(c) The Region issued sinking fund debentures of $78,079 payable on June 30, 2040 and bearing interest at the rate of 5.2% per annum. The sinking fund debentures are included in long-term liabilities in (a) and include $9,333 borrowed on behalf of the City of St. Catharines and shown as debt recoverable from others. The City of St. Catharines share of the sinking fund assets has been removed from the debt recoverable from others in (a). Annual principal payments into the sinking fund of $1,512 are due June 30 of each year. These payments are reflected as principal repayments in (e).

(d) The Region is contingently liable for long-term liabilities with respect to tile drainage and shoreline property assistance and for those for which the responsibility for the payment of principal and interest has been assumed by area municipalities and school boards. The total amount outstanding as at December 31, 2011 is $217,154 (2010 - $181,705) and is reported on the consolidated statement of financial position as debt recoverable from others.

(e) Principal payments, including sinking fund payments and capital lease obligations, due in each of the next five years, are as follows:

2012	$ 28,425
2013	25,581
2014	23,734
2015	22,808
2016	16,952
Thereafter	148,064
	$ 265,564

(f) The long-term liabilities in (a) included capital lease obligations for equipment of $1,093 expiring in 2015 with interest at a rate of 2.58%.

(g) Total interest on net long-term liabilities which are reported on the consolidated statement of operations amounted to $13,118 in 2011 (2010 - $11,076). The long-term liabilities bear interest at rates ranging from 1.55% to 8.75%. The interest on long-term liabilities assumed by the municipalities and school boards or by individuals in the case of tile drainage and shoreline property assistance loans are not reflected in these financial statements.

(h) The Region has purchased $31,325 (2010 - $29,086) of its own debentures which have not been cancelled. This investment in own debentures is included in investments on the consolidated statement of financial position. The gross outstanding amount of these debentures is $69,662 (2010 - $80,977).

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011
(In thousands of dollars)

8. Tangible capital assets:

	2011							
	Land	Landfill and Land Improvements	Building and Building Improvements	Vehicles, Machinery and Equipment	Water and Wastewater Infrastructure	Roads Infrastructure	Work in progress	Total
Cost								
Balance, beginning of year	$ 194,225	$ 59,523	$ 551,625	$ 403,898	$ 246,962	$ 498,852	$116,204	$ 2,071,289
Additions	6,360	14,902	38,516	83,839	1,841	32,537	(89,365)	88,630
Disposals	(81)	-	-	(3,895)	(41)	(4,184)	-	(8,201)
Balance, end of year	200,504	74,425	590,141	483,842	248,762	527,205	26,839	2,151,718
Accumulated Amortization								
Balance, beginning of year	-	32,827	214,221	278,638	48,693	240,802	-	815,181
Disposals	-	-	-	(3,558)	(26)	(3,903)	-	(7,487)
Amortization expense	-	2,197	16,234	22,617	3,115	16,427	-	60,590
Balance, end of year	-	35,024	230,455	297,697	51,782	253,326	-	868,284
Net Book Value, end of year	$ 200,504	$ 39,401	$ 359,686	$ 186,145	$ 196,980	$ 273,879	$26,839	$ 1,283,434

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011
(In thousands of dollars)

8. Tangible capital assets: (continued)

	2010							
	Land	Landfill and Land Improvements	Building and Building Improvements	Vehicles, Machinery and Equipment	Water and Wastewater Infrastructure	Roads Infrastructure	Work in progress	Total
Cost								
Balance, beginning of year	$191,264	$54,791	$532,684	$385,980	$218,798	$473,193	$69,878	$1,926,588
Additions	3,521	5,220	19,435	25,056	28,173	27,775	46,326	155,506
Disposals	(560)	(488)	(494)	(7,138)	(9)	(2,116)	-	(10,805)
Balance, end of year	194,225	59,523	551,625	403,898	246,962	498,852	116,204	2,071,289
Accumulated Amortization								
Balance, beginning of year	-	30,576	199,799	265,382	45,785	225,824	-	767,366
Disposals	-	(488)	(491)	(6,933)	(8)	(1,841)	-	(9,761)
Amortization expense	-	2,739	14,913	20,189	2,916	16,819	-	57,576
Balance, end of year	-	32,827	214,221	278,638	48,693	240,802	-	815,181
Net Book Value, end of year	$194,225	$26,696	$337,404	$125,260	$198,269	$258,050	$116,204	$1,256,108

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011
(In thousands of dollars)

8. Tangible capital assets (continued):

Work in progress

Work in progress having a value of $26,839 (2010 - $116,204) is not amortized. Amortization of these assets will commence when the asset is put into service.

Contributed Tangible Capital Assets

Contributed capital assets have been recognized at fair market value at the date of contribution. The value of contributed assets received during the year is $582 (2010 - $nil).

Tangible Capital Assets Disclosed at Nominal Values

Where an estimate of fair value could not be made, the tangible capital asset was recognized at a nominal value. Land is the only category where nominal values were assigned.

Works of Art and Historical Treasures

No works of art or historical treasures are held by the Region.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011
(In thousands of dollars)

9. Accumulated Surplus:

Accumulated surplus consists of balances as follows:

	2011	2010
Surplus:		
Invested in tangible capital assets	$ 1,017,870	$ 960,580
Capital fund - unexpended capital financing	175,723	141,579
Operating fund	(2,944)	(2,348)
Unfunded		
Landfill closure costs	(38,560)	(39,831)
Employee benefits	(82,659)	(81,293)
	1,069,430	978,687
Reserve and reserve funds set aside by Council:		
Ambulance communication	1,947	-
Brock and Niagara College	85	1,445
Children's services	700	699
Circle route initiatives	1,483	-
Contingencies	7,144	8,286
Employee benefits	34,921	34,579
Encumbrances	2,655	1,069
General capital levy	8,818	14,512
General operating levy	2,837	2,837
Investment income stabilization	1,003	-
Land ambulance severance	4,211	3,741
Niagara Health System funding obligation	1,000	5,630
Niagara Regional Housing	14,000	15,485
POA facilities renewal	1,694	1,194
Public health	539	-
Public liability self-insurance	2,514	2,508
Replacement of equipment	7,033	7,034
Senior services	2,870	3,188
Smart growth	1,755	1,911
Social assistance	8,489	8,622
Tax write-off	5,000	5,000
Taxpayer relief reserve	5,175	-
Transportation services	-	430
Waste management operations	15,771	16,389
Wastewater operations	48,265	62,417
Water operations	64,375	65,328
Other	2,771	4,376
	247,055	266,680
	$ 1,316,485	$ 1,245,367

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011
(In thousands of dollars)

10. Trust funds:

Trust funds administered by the Region amounting to $1,096 (2010 - $1,208) have not been included in the consolidated statement of financial position nor have their operations been included in the consolidated statement of operations.

11. Commitments:

(a) The Region has outstanding contractual obligations of approximately $40,444 (2010 - $49,464) for public works projects. These costs include holdbacks. The holdbacks related to work completed as of December 31, 2011 have been accrued. Regional Council has authorized the financing of these obligations.

(b) The Region is committed to paying principal and interest payments on provincial debentures issued to finance the properties transferred to Niagara Regional Housing from Ontario Housing Corporation. The debentures are outstanding in the amount of $20,902 (2010 - $22,367). Annual payments of $2,882 (2010 - $2,880) and have been charged to current operations.

(c) The Region enters into various service contracts in the normal course of business which have been approved by the appropriate level of management or by Council but which have not been reported as commitments.

(d) Minimum annual lease payments:

The Region rents premises and equipment with minimum annual lease payments as follows:

	2011	2010
2011	$ -	$ 1,703
2012	2,099	1,290
2013	1,742	1,083
2014	1,335	912
2015	1,196	800
2016	991	-
Thereafter	3,276	2,966
	$ 10,639	$ 8,754

12. Contingent liabilities:

From time to time, the Region is subject to claims and other lawsuits that arise in the ordinary course of business, some of which may seek damages in substantial amounts. These claims may be covered by the Region's insurance up to a maximum of $15,000 per occurrence. Liability for these claims and lawsuits are recorded to the extent that the probability of a loss is likely and it is estimable.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011
(In thousands of dollars)

13. Public liability insurance:

The Region has undertaken a portion of the risk for public liability as a means of achieving efficient and cost effective risk management. The Region is self-insured for public liability claims up to $1,000 for any individual claim and $1,000 for any number of claims arising out of a single occurrence. Outside coverage is in place for claims in excess of these amounts up to $15,000 per occurrence.

The Region has a reserve fund for allocated self-insurance claims which as at December 31, 2011 amounted to $2,514 (2010 - $2,508) and which is reported on the consolidated statement of financial position under accumulated surplus. An amount of $nil (2010 - $235) has been transferred to this reserve fund in the current year. An amount of $nil (2010 - $nil) has been transferred from this reserve fund in the current year.

Payments charged against operations in the current year amounted to $1,307 (2010 - $2,070). Interest earned by the reserve fund amounted to $6 (2010 - $6).

14. Self funded employee benefit plans:

The Region provides a group health and dental plan for certain employees and has assumed the full liability for payment of benefits under this plan.

Payments charged against operations in the current year amounted to $13,715 (2010 - $12,296).

15. Subsequent event:

On February 29, 2012 Niagara Regional Housing (NRH), an agency of the Region, acquired a property from a housing provider. NRH is planning on reconstructing the existing units which, when completed in 2012, will include 51 townhouse units and seven one-bedroom apartments. During 2011 NRH provided the housing provider funding of $4,814 to begin reconstructing the asset prior to acquisition. The agreement provides that the amount would be refundable to NRH if the purchase transaction did not occur. This amount is included as a deposit on the statement of financial position at December 31, 2011. Additional funding of $574 was provided in 2012 prior to the date of acquisition.

At the date of acquisition, NRH paid the existing Canada Mortgage and Housing Corporation mortgage in the amount of $783 and the funding provided up to February 29th was transferred to the value of the asset. In addition, NRH also acquired certain assets of the housing provider, including funds in its Capital Reserve Account. Costs to continue reconstructing this asset are included in NRH's approved 2012 capital plan.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011
(In thousands of dollars)

16. Government transfers:

The Region recognized the transfer of government funding as expenses or revenues in the period that the events giving rise to the transfer occurred. The Government transfers reported on the Statement of Operations are:

	2011	2010
Revenue:		
Government of Canada:		
General government	$ 3,949	$ 51
Protection to persons and property	20	-
Transportation services	117	11,761
Environmental services	11,322	23,743
Health services	59	66
Social and family services	582	749
Social housing	9,395	10,167
Planning and development	-	8
	25,444	46,545
Province of Ontario:		
General government	9,044	4
Protection to persons and property	3,541	3,916
Transportation services	6,749	4,017
Environmental services	9,706	26,944
Health services	50,789	45,265
Social and family services	157,313	293,465
Social housing	10,171	11,665
	247,313	385,276
Other municipalities:		
General government	521	402
Transportation services	4,128	1,219
Environmental services	5,850	1,368
Health services	-	402
Social and family services	13	39
Social housing	165	-
Planning and development	-	2
	10,677	3,432
Total revenues	$ 283,434	$ 435,253

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011
(In thousands of dollars)

17. Segmented information:

Segmented information has been identified based upon functional areas by the Region.

Previously segmented information was provided based upon lines of service. This change has been made to align the segmented information with Region activities. The comparative segmented information has been restated. This change has no financial effect.

The functions have been separately disclosed in the segmented information as follows:

(i) General government:

General government consists of the general management of the Region, including adopting bylaws and policy, levying taxes, issuing debentures and providing administrative, technical, facility management, and financial services.

(ii) Protection to persons and property:

Protection to persons and property is comprised of the Police Services and Provincial Offences (the "POA"). The mandate of Police Services is to ensure the safety of the lives and property of citizens; preserve peace and good order; prevent crimes from occurring; detect offenders; and enforce the law. The POA is a procedural law for administering and prosecuting Provincial Offences including those committed under the Highway Traffic Act, the Compulsory Automobile Insurance Act, the Trespass to Property Act, the Liquor License Act and other provincial legislation, municipal by-laws and minor federal offences. The POA governs all aspects of the legal prosecution process, from serving an offence notice to an accused person to conducting trials including sentencing and appeals.

(iii) Transportation services:

Within the Public Works department, this segment is responsible for the planning, design, operation and maintenance of the roadway system, the maintenance of parks and open space, and street lights.

(iv) Environmental services:

Within the Public Works department, this segment is responsible for the engineering and operation of the water and wastewater systems and waste management, the latter of which encompasses solid waste collection and disposal and Niagara Recycling.

(v) Health services:

The Public Health Department offers a range of programs related to health services that includes protection and promotion, disease and injury prevention and also oversees the Emergency Services Division (ESD) that encompasses both Land Ambulance (Paramedic) Services and Land Ambulance Communications (Dispatch) Services.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011
(In thousands of dollars)

17. Segmented information (continued):

(vi) Social and family services:

The Community Services department is responsible for providing public services that sustains and supports individuals, families and communities. Programs and services are delivered through Senior Services, Children's Services, and Social Assistance and Employment Opportunities.

(vii) Social housing:

The Region is committed to providing and advocating for secure, affordable housing in the Region.

(vii) Planning and development:

The planning and development department provides information to Council and the community through working with partners and community groups to support planning initiatives in the region, providing information to residents about Region programs and services and providing leadership in the development, maintenance and growth of emergency readiness in Niagara. The planning and development department also supports economic development and Region special initiatives.

Certain allocation methodologies are employed in the preparation of segmented information. Taxation and payments-in-lieu of taxes are allocated to the segments based on the segment's budgeted net expenses. User charges and other revenue have been allocated to the segments based upon the segment that generated the revenue. Government transfers have been allocated to the segment based upon the purpose for which the transfer was made. Development charges earned and developer contributions received were allocated to the segment for which the charge was collected.

The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 1.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011
(In thousands of dollars)

17. Segmented information (continued):

	2011								
	General government	Protection to persons and property	Transportation services	Environmental services	Health services	Social and family services	Social housing	Planning and development	Total
Revenues:									
Taxation	$ 30,018	$ 132,009	$ 41,596	$ -	$ 22,048	$ 37,834	$ 25,967	$ 9,860	$ 299,332
User charges	617	7,791	3,563	154,887	275	22,938	12,115	39	202,225
Government transfers	13,514	3,561	10,994	26,878	50,848	157,908	19,731	-	283,434
Development charges earned	-	-	3,661	3,379	-	-	-	-	7,040
Investment income	14,487	-	-	-	6	-	59	-	14,552
Provincial offences	-	9,321	-	-	-	-	-	-	9,321
Other	875	560	382	527	1,530	856	527	115	5,372
Total revenues	59,511	153,242	60,196	185,671	74,707	219,536	58,399	10,014	821,276
Expenses:									
Salaries, wages and employee benefits	8,268	127,139	13,898	27,322	58,743	85,408	4,667	2,074	327,519
Operating expenses	11,534	16,024	15,297	83,121	11,590	48,105	20,399	8,089	214,159
External transfers	58	10,388	-	-	355	89,138	25,500	9,317	134,756
Debt services	1,379	1,099	3,688	5,164	72	1,388	303	41	13,134
Amortization	4,009	5,028	18,665	23,754	1,582	2,498	5,054	-	60,590
Total expenses:	25,248	159,678	51,548	139,361	72,342	226,537	55,923	19,521	750,158
Annual surplus (deficit)	$ 34,263	$ (6,436)	$ 8,648	$ 46,310	$ 2,365	$ (7,001)	$ 2,476	$ (9,507)	$ 71,118

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011
(In thousands of dollars)

17. Segmented information (continued):

	2010								
	General government	Protection to persons and property	Transportation services	Environmental services	Health services	Social and family services	Social housing	Planning and development	Total
Revenues:									
Taxation	$ 27,941	$ 128,059	$ 39,632	$ -	$ 20,491	$ 50,718	$ 25,460	$ 9,540	$ 301,841
User charges	853	7,414	2,665	148,305	315	22,700	12,029	29	194,310
Government transfers	457	3,916	16,997	52,055	45,733	294,253	21,832	10	435,253
Development charges earned	-	-	1,229	1,135	-	-	-	-	2,364
Investment income	10,613	-	-	-	2	-	35	-	10,650
Provincial offences	-	8,869	-	-	-	-	-	-	8,869
Other	777	461	221	223	1,062	512	541	24	3,821
Total revenues	40,641	148,719	60,744	201,718	67,603	368,183	59,897	9,603	957,108
Expenses:									
Salaries, wages and employee benefits	8,438	118,751	13,905	26,692	59,315	81,643	4,862	2,104	315,710
Operating expenses	13,704	16,451	20,059	69,565	11,422	47,473	25,255	11,606	215,535
External transfers	202	8,488	-	-	-	242,722	25,105	2,087	278,604
Debt services	1,307	788	3,734	3,377	94	1,469	275	50	11,094
Amortization	5,388	4,743	17,313	21,574	1,500	2,405	4,653	-	57,576
Total expenses:	29,039	149,221	55,011	121,208	72,331	375,712	60,150	15,847	878,519
Annual surplus (deficit)	$ 11,602	$ (502)	$ 5,733	$ 80,510	$ (4,728)	$ (7,529)	$ (253)	$ (6,244)	$ 78,589

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011
(In thousands of dollars)

18. Budget data:

The unaudited budget data presented in these consolidated financial statements are based upon the 2011 operating and capital budgets approved by Council. The chart below reconciles the approved budget to the budget figures reported in these consolidated financial statements. Budgets established for tangible capital asset acquisitions are on a project-oriented basis, the costs of which may be carried out over one or more years. Where amounts were budgeted for on a project-oriented basis, the actual amounts for 2011 were used in order to adjust the budget numbers to reflect the same basis of accounting that was used to report the actual results. In addition, to ensure comparability of expenses, the allocation of program support costs completed for actual reporting was also applied to the budget amounts.

	Budget Amount
Revenues:	
Operating	
Approved budget	$ 740,012
Reclassification between revenue and expense	6,704
Budget updates	4,893
Capital:	
Development charges	6,895
Grants and subsidies	42,531
Other contributions	534
Contributed assets	582
Less:	
Transfers from reserves and reserve funds	(10,914)
Loss on sales of tangible capital assets	(406)
Proceeds on sale of tangible capital assets	(208)
Total revenue	790,623
Expenses:	
Operating	
Approved budget	740,012
Reclassification between revenue and expense	6,704
Budget updates	4,893
Add:	
Expense projects	19,313
Amortization	60,590
Employee future benefits	1,366
Less:	
Capital projects	(2,202)
Capital write-downs	(180)
Landfill liability	(1,271)
Transfers to reserves and reserve funds, including capital	(60,627)
Debt principal payments	(30,837)
Total expenses	737,761
Annual surplus	$ 52,862

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011
(In thousands of dollars)

19. Comparative figures:

Certain 2010 comparative figures have been reclassified to conform to the consolidated financial statement presentation adopted in the current year. There was no impact to the annual or accumulated surplus as a result of the reclassification of 2010 comparative figures.

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Independent Auditors' Report

To the Members of Council, Inhabitants and Ratepayers of
The Regional Municipality of Niagara

We have audited the accompanying financial statements of the sinking funds of The Regional Municipality of Niagara, which comprise the statement of financial position as at December 31, 2011, the statements of operations and change in net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the statement of financial position of the sinking funds of The Regional Municipality of Niagara as at December 31, 2011, and its results of operations and the changes in its net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
April 12, 2012
St. Catharines, Canada

KPMG LLP, is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. KPMG Canada provides services to KPMG LLP.

Sinking Fund Statement of Financial Position

Year ended December 31, 2011
(In thousands of dollars)

Financial assets:	
Cash	$ 1
Interest receivable	14
Investments	1,517
	1,532
Financial liabilities:	
Accounts payable and accrued liabilities	5
Sinking fund requirements	
City of St. Catharines	184
The Regional Municipality of Niagara	1,355
	1,544
Accumulated deficit	$ (12)

The accompanying notes are an integral part of these financial statements.

Sinking Fund Statement of Operations and Change in Net Debt

For the 18 month period ended December 31, 2011
(In thousands of dollars)

Revenues:	
Contributions	$ 1,513
Investment income	19
Total revenues	1,532
Expenses:	
Professional fees	5
Provision for sinking fund requirements	1,539
Total expenses	1,544
Expenses in excess of revenue for the period	(12)
Accumulated surplus (deficit), beginning of year	-
Accumulated deficit, end of year	$ (12)

The accompanying notes are an integral part of these financial statements.

Sinking Fund Statement of Cash Flows

For the 18 month period ended December 31, 2011
(In thousands of dollars)

Operating Activities:	
Excess of expense over revenue for the period	$ (12)
Change in non-cash assets and liabilities:	
Interest Receivable	(14)
Accounts payable and accrued liabilities	5
Net change in cash from operating activities	(21)
Investing Activities:	
Purchase of investments	(7,571)
Proceeds from the sale of investments	6,054
Net change in cash from investing activities	(1,517)
Financing Activities:	
Increase in sinking fund requirements	1,539
Net change in cash from financing activities	1,539
Net change in cash	1
Cash, beginning of year	-
Cash, end of year	$ 1

The accompanying notes are an integral part of these financial statements.

Notes to Sinking Fund Financial Statements

For the 18 month period ended December 31, 2011
(In thousands of dollars)

1. Significant accounting policies:

The Regional Municipality of Niagara (the "Region") sinking fund is a separate fund maintained for the purpose of providing for the repayment of all sinking fund debt when it becomes due and payable. The debt issued on June 30, 2010 subject to repayment through the sinking fund is $78,079. The sinking fund is proportionally held 88.05% by the Region and 11.95% by the City of St. Catharines. Annual interest payments on the sinking fund debt are $4,060.

(a) Basis of accounting:

The Region's sinking fund follows the accrual method of accounting for revenues and expenses.

(b) Sinking fund requirements:

The requirements of the sinking fund represent the amounts required which, together with interest compounded annually, will be sufficient to retire the related debentures at maturity. The requirements were calculated using a rate of 3.5% per annum.

(d) Investment income:

Investment income earned and reported as revenue in the period earned.

2. Investments:

The investments consist of municipal bonds and are carried at cost. At December 31, 2011 the investments have a market value of $1,593.

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Independent Auditors' Report

To the Members of Council, Inhabitants and Ratepayers of
The Regional Municipality of Niagara

We have audited the accompanying financial statements of the trust funds of The Regional Municipality of Niagara, which comprise the statement of financial position as at December 31, 2011, the statements of operations and change in net financial assets for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the statement of financial position of the trust funds of The Regional Municipality of Niagara as at December 31, 2011, and its results of operations and the changes in its net financial assets for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
April 12, 2012
St. Catharines, Canada

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Trust Funds Statement of Financial Position

December 31, 2011, with comparative figures for 2010
(In thousands of dollars)

	2011	2010
Financial asset		
Cash	$ 1,148	$ 1,221
Financial liability		
Due to The Regional Municipality of Niagara (note 2)	52	13
Accumulated surplus and net financial assets	$ 1,096	$ 1,208

The accompanying notes are an integral part of these financial statements.

Trust Funds Statement of Operations and Change in Net Financial Assets

Year ended December 31, 2011
(In thousands of dollars)

	Residents' Trust Accounts	Trust Funds Retained for Residents	Donated Surplus	Total 2011	Total 2010
Revenue:					
Residents' deposits, net	$ 1,158	$ -	$ -	$ 1,158	$ 1,199
Interest income	-	-	-	-	7
Donations	-	52	175	227	278
	1,158	52	175	1,385	1,484
Expense:					
Residents' withdrawals, net	1,201	-	-	1,201	1,228
Expenditures for the benefit of residents	-	61	235	296	256
	1,201	61	235	1,497	1,484
Annual deficit and changes in net financial assets	(43)	(9)	(60)	(112)	-
Accumulated surplus and net financial assets, beginning of year	610	286	312	1,208	1,208
Accumulated surplus and net financial assets, end of year	$ 567	$ 277	$ 252	$1,096	$ 1,208

The accompanying notes are an integral part of these financial statements.

Notes to Trust Funds Financial Statements

Year ended December 31, 2011
(In thousands of dollars)

1. Significant accounting policies:

The financial statements of trust funds of The Regional Municipality of Niagara are the representation of management prepared in accordance with Canadian public sector accounting standards, established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. Significant accounting policies adopted by the Trust Funds are as follows:

(a) Basis of accounting:

The Trust Funds follow the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as result of receipt of goods and services and/or the creation of a legal obligation to pay.

(b) Tangible capital assets:

The net financial assets of the Trust Funds are resident deposits for the benefits of residents. No tangible capital assets are purchased by the Trust Funds.

2. Due to The Regional Municipality of Niagara:

The amount due to The Regional Municipality of Niagara has no fixed terms of repayment and is non-interesting bearing.

3. Statement of cash flows:

Statement of cash flows has not been included in these financial statements as the information that would be provided is readily available from the information presented.

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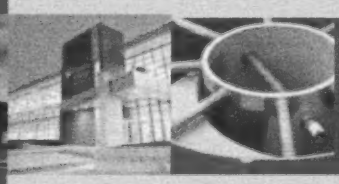

2011

Five Year Statistical Review

Five Year Statistical Review

December 31, 2011 with comparative figures for 2010
(unaudited - in thousands of dollars)

	2011	2010	2009	2008	2007
Statistics					
Population (a)	431,346	443,866	442,908	442,121	433,946
Number of households (b)	190,150	188,554	186,504	187,524	185,502
Niagara Region government full-time employees	3,424	3,402	3,367	3,303	3,270
Unemployment rates (c):					
Niagara Region	8.8%	9.4%	10.4%	7.4%	6.8%
Ontario	7.7%	8.6%	9.0%	6.5%	6.4%
Canada	7.4%	8.0%	8.3%	6.1%	6.0%
Average monthly Ontario Works caseloads	10,302	9,790	8,902	7,457	7,242
Housing starts (d)	1,110	1,086	859	1,138	1,149
Annual disposal residential solid waste (metric tonnes)	93,466	116,883	115,338	120,507	120,911
Annual diversion of residential solid waste (metric tonnes)	91,643	84,901	90,579	85,736	85,331
Annual supply of treated water (000 m3)	59,592	59,432	58,857	60,793	67,993
Annual wastewater flows (000 m3)	85,675	73,099	79,548	87,857	76,789
Building Permit Values ($000's)					
Agricultural & residential (e)	$ 282,500	$ 284,196	$ 222,085	$ 315,642	$ 326,128
Business & commercial (e)	116,624	141,573	140,237	111,210	186,457
Industrial (e)	29,153	40,777	41,096	48,925	41,823
Government & Institutional (e)	43,349	621,133	80,090	44,584	22,691
	$ 471,626	$1,087,679	$ 483,508	$ 520,361	$ 577,099

Source:
(a) Statistics Canada preliminary estimate (2007-2010 based on 2006 adjusted census data; 2011 based on 2011 census data)
(b) Ontario Assessment System, household counts for unconditional grants act
(c) Statistics Canada, The Conference Board of Canada
(d) CMHC Canadian Housing Observer
(e) Statistics Canada, Building Permits

Five Year Statistical Review

December 31, 2011 with comparative figures for 2010
(unaudited - in thousands of dollars)

	2011	2010	2009	2008	2007
Area Municipalities Tax Levy & Collection Experiences					
Current tax levy (a)	n/a	$ 759,551	$ 738,102	$ 721,348	$702,625
Current tax levy collections (a)	n/a	$ 702,142	$683,645	$ 669,125	$655,882
Current collection as a % of current levy	n/a	92.4%	92.6%	92.8%	93.3%
Total collections (a)	n/a	$ 756,560	$ 733,517	$712,056	$696,966
Total collections as a % of current levy	n/a	99.6%	99.4%	98.7%	99.2%
Total tax arrears (a)	n/a	$ 66,237	$ 65,247	$ 59,948	$ 56,124
Tax arrears as a % of current levy	n/a	8.7%	8.8%	8.3%	8.0%
Regional government tax levy change (Net assessment decrease/increase after assessment growth)	-1.37%	-0.08%	1.24%	0.04%	2.10%
Taxable Assessment (Taxable assessment upon which the year's rate of taxation were set)					
Residential and farm	$ 35,739,283	$ 33,647,581	$ 31,667,660	$ 29,655,951	$ 29,286,154
Commercial, industrial and business	6,114,200	5,682,992	5,419,016	5,222,326	5,143,012
Total	$ 41,853,483	$ 39,330,573	$ 37,086,676	$ 34,878,277	$ 34,429,166
Per household ($)	$ 187,953	$ 178,451	$ 169,796	$ 158,145	$ 157,875
Commercial, industrial, business, as a % of taxable assessment	14.6%	14.4%	14.6%	15.0%	14.9%

Source:
(a) Area municipalities financial information return

Five Year Statistical Review

December 31, 2011 with comparative figures for 2010
(unaudited - in thousands of dollars)

	2011	2010	2009	2008	2007
Consolidated Statement of Change in Net Financial Assets (Debt)					
Annual surplus	$71,118	$78,589	$38,712	$45,749	$61,772
Acquisition of tangible capital assets	(88,630)	(155,506)	(114,821)	(66,222)	(87,126)
Amortization of tangible capital assets	60,590	57,576	55,568	53,840	52,912
Loss on sale of tangible capital assets	406	160	141	406	946
Proceeds on sales of tangible capital assets	308	884	233	214	169
Change in supplies of inventories	(106)	(356)	(23)	(231)	252
Change in deposit	(4,814)	-	-	-	-
Change in prepaid expenses	(863)	(5,972)	(865)	115	(88)
Change in net financial assets (net debt)	38,009	(24,625)	(21,055)	33,871	28,837
Net financial assets (net debt), beginning of year	(22,080)	2,545	23,600	(10,271)	(39,108)
Net financial assets (net debt), end of year	$15,929	$(22,080)	$2,545	$23,600	$(10,271)
Net Long Term Liabilities					
General municipal activities - capital projects	$265,564	$295,528	$167,572	$170,206	$192,689
Per capita ($)	$616	$666	$378	$385	$444
Percentage of taxable assessment					
Commercial, industrial and business	0.6%	0.8%	0.5%	0.5%	0.6%
Debt Charges for Net Long-Term Liabilities					
General municipal activities	$44,174	$35,480	$33,068	$35,824	$37,847
Per capita ($)	$102	$80	$75	$81	$87
General Long-Term Debt Charges as % of Total General Expenditures					
Percentage of debt to general expenditures	5.9%	4.0%	4.0%	4.7%	5.0%
Annual Repayment Limit					
Annual repayment limit	$95,547	$87,754	$81,724	$82,763	$82,289

Five Year Statistical Review

December 31, 2011 with comparative figures for 2010
(unaudited - in thousands of dollars)

	2011	2010	2009	2008	2007
Consolidated Statement of Financial Position					
Financial Assets					
Cash	$87,144	$74,495	$41,399	$18,493	$13,250
Investments	407,540	420,772	337,924	373,613	316,901
Accounts receivable	74,763	92,924	71,506	56,434	54,470
Other current assets	279	735	1,928	2,684	2,394
Debt recoverable from others	217,154	181,705	158,319	158,843	158,666
Total financial assets	786,880	770,631	611,076	610,067	545,681
Financial Liabilities					
Accounts payable and accrued liabilities	97,009	121,931	90,673	82,932	70,143
Employee benefits and other liabilities	82,659	81,293	79,272	72,551	68,456
Deferred revenue	70,005	72,423	67,777	58,170	24,018
Landfill liability	38,560	39,831	44,918	43,765	41,980
Long-term liabilities	482,718	477,233	325,891	329,049	351,355
Total financial liabilities	770,951	792,711	608,531	586,467	555,952
Net financial assets (net debt)	15,929	(22,080)	2,545	23,600	(10,271)
Non-financial assets					
Tangible capital assets	1,283,434	1,256,108	1,159,222	1,100,343	1,088,581
Inventory	3,872	3,766	3,410	3,387	3,156
Deposits	4,814	-	-	-	-
Prepaid expenses	8,436	7,573	1,601	736	851
Total non-financial assets	1,300,556	1,267,447	1,164,233	1,104,466	1,092,588
Accumulated surplus	$1,316,485	$1,245,367	$1,166,778	$1,128,066	$1,082,317

Five Year Statistical Review

December 31, 2011 with comparative figures for 2010
(unaudited - in thousands of dollars)

	2011	2010	2009	2008	2007
Consolidated Statement of Operations					
Revenues By Source					
Property taxpayer	$299,332	$301,841	$297,212	$291,559	$289,257
Sewer charges	61,615	60,339	58,606	56,808	55,293
Water charges	42,585	41,709	37,040	33,471	35,418
Waste management	50,336	45,998	42,182	41,460	39,562
User charges	47,688	46,264	45,419	45,315	44,197
Government of Canada grants	25,444	46,545	20,384	16,026	14,112
Province of Ontario grants	247,313	385,276	318,140	295,070	297,150
Other municipalities	10,677	3,432	6,977	4,178	8,441
Development charges	7,040	2,364	8,691	4,052	3,719
Developer contributions	526	135	1,326	2,171	1,718
Investment income	14,552	10,650	11,503	15,157	14,788
Provincial offences act	9,321	8,869	7,923	7,298	7,023
Miscellaneous income/other	4,846	3,686	3,161	2,544	5,681
Total revenue by source	821,276	957,108	858,564	815,109	816,359
Expense By Function					
General government	25,248	29,709	27,443	30,151	24,149
Protection to persons and property	159,678	147,317	143,144	137,684	131,274
Transportation services	51,548	65,386	51,775	44,906	45,892
Environmental services	139,361	121,319	127,129	119,049	107,056
Health services	72,342	72,712	67,879	63,714	61,330
Social and family services	226,537	376,989	343,747	319,990	332,315
Social housing	55,923	60,188	53,931	49,274	46,878
Planning and development	19,521	4,899	4,804	4,592	5,693
Total expenses by function	750,158	878,519	819,852	769,360	754,587
Annual Surplus	71,118	78,589	38,712	45,749	61,772
Accumulated surplus, beginning of year	1,245,367	1,166,778	1,128,066	1,082,317	1,020,545
Accumulated surplus, end of year	$1,316,485	$1,245,367	$1,166,778	$1,128,066	$1,082,317
Analysis Of Expenses By Object					
Salaries, wages and employee benefits	$327,519	$315,711	$304,988	$286,499	$271,296
Operating expenses	214,159	215,534	204,873	192,745	198,096
External transfers to others	134,756	278,604	245,870	227,051	222,067
Debt services	13,134	11,094	8,553	9,225	10,216
Amortization	60,590	57,576	55,568	53,840	52,912
Total expenses by object	$750,158	$878,519	$819,852	$769,360	$754,587

Niagara Region

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